

ARGENTINA

TRADE REPORT

ECONOMIC SECTION

U.S. EMBASSY

BUENOS AIRES

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SUMMARY

Argentine exports were USD 25.3 billion in 2002, down 4.8 percent from 2001. There were decreases in all major categories of exports with the exception of agribusiness in 2002. Imports were USD 9.0 billion, down 55.8 percent, which resulted in a record trade surplus of USD 16.4 billion. Lack of trade financing, uncertainty, regulatory changes, higher prices for imported inputs and exchange controls contributed to the overall decrease in exports despite the real peso depreciation of early 2002. Exports were also negatively affected by poor economic performance in Brazil, Uruguay and Paraguay, Argentina's MERCOSUR trading partners. Exporters' profits were affected by new export taxes. Argentina's export performance in 2002 demonstrates the importance of the country's trade ties with the EU and NAFTA, as Argentina's growing exports to these areas offset declining exports to MERCOSUR.

COMPOSITION OF EXPORTS

There were decreases in all major categories of exports with the exception of agribusiness exports in 2002. Primary products fell by 13 percent, fuels and energy products fell by 9.2 percent and industrial goods decreased by 8.5 percent. The greatest absolute decreases came from automobiles, crude petroleum and wheat. Agribusiness exports increased 9 percent. The greatest absolute increases were in soy oil, beef and soy by-products.

Agribusiness exports increased to 32 percent of total exports in 2002, up from 28 percent in 2001. The growth in agribusiness exports was due to a 14.4 percent increase in volumes, despite a 5 percent drop in prices. Vegetable oils and oil seed by-products, the most important agribusiness exports, grew by 27 percent and 6 percent, respectively. Vegetable oil prices grew 27 percent while volumes remained stable. Oil seeds by-product prices declined, but volumes increased 10 percent. Beef exports grew by 58 percent due to a 118 percent volume increase, though beef prices declined.

Primary products exports declined due to a 12 percent reduction in volumes and a 1 percent contraction in prices. Most of the drop in primary product exports came from the reduction in cereals and fish and shellfish. Cereal exports fell by 13 percent and fish and shellfish exports fell by 32 percent. In the case of cereals volumes fell by 15.9 percent, though prices rose by 3.6 percent. Wheat production declined, resulting in lower exports to Brazil and Iran. There was also a decline in the corn crop that caused a decrease in exports to Brazil, Japan and Malaysia. Fish and shellfish exports contracted due to a reduction both in prices and volumes of 19.7 and 15.8, respectively. Oil seed exports fell by 8.3 percent due to a 15.6 reduction in volume, which was partially offset by a 8.5 percent increase in prices. Copper exports, one of the only items to grow, increased by 22 percent, largely to Germany and Japan.

Fuel and energy products exports decreased 9.2 percent largely due to a 6.8 percent decrease in prices and a 2.6 decrease in volumes. Most of the

reduction is explained by the drop in exports of all items included in the group, except for lubricants, which grew by 46 percent. However, lubricants represent only 2.3 percent of the total. Petroleum exports fell by 9 percent, gas by 7 percent and electric power by 62 percent. Volumes of crude petroleum fell by 5.8 percent and prices also fell by 3 percent.

Industrial exports contracted due to a 4.9 percent reduction in volumes and a 3.8 percent reduction in prices. Most of the drop in industrial products exports is due to a decline in chemicals, leather goods including shoes, textiles, machinery and land vehicles. Chemicals experienced a reduction in both prices and volumes of 3.4 percent and 3.1 percent, respectively. Automobile prices remained stable, though volumes fell by 23.4 percent. However, 77 percent of the car units produced were exported due to contraction in domestic demand and increased access to the Brazilian, Mexican and Chilean markets.

DESTINATION OF EXPORTS

Exports to MERCOSUR amounted to USD 5.6 billion in 2002, down a significant 24.5 percent compared to 2001. USD 4.8 billion of this amount went to Brazil. MERCOSUR is still the most significant destination for Argentine exports, receiving 22 percent of the total. Exports to MERCOSUR were affected by the Argentine economic crisis and the recession in many sectors of the Brazilian economy. These low levels of activity resulted in a drop in Brazilian demand for imports, including Argentine products. Total Brazilian imports fell by 15 percent in 2002, but imports from Argentina fell an even greater 23.5 percent. The Argentine share of total Brazilian imports was 10.0 in 2002, down from 11.2 percent in 2001. Argentine exports to Brazil have been more elastic to Brazil's growth rate than to the bilateral real exchange.

MERCOSUR's share of Argentine total exports was 15 percent in 1990, the year previous to the signing of the Asuncion treaty for the establishment of MERCOSUR. This share increased to a peak of 36 percent in 1997. MERCOSUR thereby replaced the EU as the main destination for exports, making Argentine exports much more dependent on the Brazilian market than on the European market. Primary products exports to MERCOSUR fell by 19 percent in 2002, agribusiness products fell by 12 percent, industrial goods fell by 29 percent and fuels fell by 25 percent. Most of this decrease is due to reductions in cereals, crude petroleum, electric power, chemicals, electric machinery and automobiles. Automobiles continue to be the most significant export to Brazil even though they dropped from USD 1.5 billion in 2001 to USD 860 million in 2002. Automobile exports were almost equal to cereal exports, which were USD 752 million in 2002. Trade with MERCOSUR produced a USD 2.7 billion trade surplus for Argentina.

Exports to the EU were USD 5.1 billion in 2002, up 11 percent from 2001. The EU was the destination of 20 percent of Argentina's exports. This made the EU almost as important as MERCOSUR as an export market for Argentina. Primary products exports to the EU fell by 4 percent, agribusiness products grew 25 percent, industrial goods grew 5 percent, and fuels grew 16 percent. Most of this increase is due to greater exports of vegetable oils and beef. Trade

with the EU produced a USD 3.1 billion trade surplus for Argentina, which is greater than Argentina's trade surplus with MERCOSUR, even though the EU received a smaller percentage of total exports.

Exports to NAFTA were USD 3.7 billion, up 2.7 percent compared to 2001. NAFTA was the destination of 14.6 percent of Argentina's exports. Primary products exports to NAFTA fell by 21 percent, agribusiness products fell by 7 percent, industrial goods grew 11 percent and fuels grew 7 percent. Trade with NAFTA produced a USD 1.7 billion surplus, up from a USD 0.8 billion deficit the previous year. Total exports to the US were USD 2.8 billion, down 2.2 percent from 2001. Trade with the US produced a USD 994 million surplus. Total exports to Mexico were USD 672 million, up 35.8 percent. Most of the 2002 export growth to NAFTA is explained by greater vehicle exports to Mexico, as the result of a bilateral auto pact signed in July 2002. Even greater exports to Mexico are expected once the bilateral auto pact completes a full calendar year and the phase-out program to liberalize auto trade between the two countries progresses.

Exports to the rest of the world were USD 10.9 billion in 2002, including USD 3 billion to Chile, USD 1.1 billion to China and USD 1.0 billion to the Middle East. Exports to Chile grew 3 percent compared to 2001 and represented 12 percent of total exports. Primary products exports to Chile fell by 8 percent, agribusiness products grew 9 percent, industrial goods grew 20 percent, and fuels fell by 2 percent. An auto pact was also signed between Argentina and Chile, establishing an exchange of 7,000 units in a year. Trade with Chile produced a USD 2.7 billion surplus, almost as large as Argentina's trade surplus with the EU.

TABLE ONE
ARGENTINE EXPORTS - 2002
(USD MILLIONS)

	Total	MERCOSUR	EU	NAFTA	Chile	Middle East	Rest
All Products	25,346	5,632	5,099	3,715	2,955	1,013	6,932
Primary Products	5,263	990	1,447	236	157	1,954	479
Agribusiness	8,130	738	2,720	811	306	424	3,131
Industrial Products	7,603	2,820	880	1,604	761	1,428	110
Fuels	4,350	1,084	52	1,064	1,731	-	419
Pct Share of Total	100.0	22.2	20.1	14.7	11.7	27.3	4.0
Pct Growth 2002/2001	-4.8	-24.5	11.3	2.7	3.4	-1.2	-6.0

Source: National Bureau of Statistics and Census
(INDEC)

ANALYSIS OF THE 2002 RESULTS

The GOA did not expect a decline in exports after the significant real depreciation of the peso in 2002. GOA preliminary predictions were that the devaluation would be the foundation for a boom in exports. However, political and economic uncertainty, abrupt regulatory changes affecting foreign trade, higher prices for imported inputs, exchange controls and the lack of trade financing contributed to the actual decline. Historically, the lack of trade finance and uncertainty about future political and economic stability have outweighed any benefits Argentina's exports may have gained from changes in the real exchange rate.

Argentine exports also became more dependent on the Brazilian, Uruguayan and Paraguayan rates of economic growth as MERCOSUR became a more integrated area during the nineties. Local analysts have noted that this is a negative consequence of the MERCOSUR agreement. These analysts praised the benefits of having a diversified set of export markets as a means of not becoming dependent on specific economies. Becoming dependent on a few markets increases the risks for foreign trade, even more so if these economies are not stable. The appreciation of the euro in dollar terms may help Argentina improve its access to the EU market, and thereby reduce the MERCOSUR's importance in Argentina's total trade.

Finally, exporters' profits were affected by new export taxes of 5 to 20 percent that were imposed by the GOA both as a source of fiscal revenue and as a way to depress the domestic prices of tradable goods.

Predictions for Argentine export growth in 2003 average 11 percent, based on the information provided by 15 well-known think tanks, ranging from a minimum of 6.5 percent to a maximum of 15.5 percent.

COMMENT

Argentina's export performance in 2002 demonstrates the importance of the country's trade ties with the EU and NAFTA, as Argentina's growing exports to these areas offset declining exports to MERCOSUR.